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## Turkey

### Cotton and Products Annual

#### 2015 Turkey

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**Report Highlights:**

Turkish Marketing Year (MY) 2015 cotton area and production are projected to decline about 12 percent after a short recovery from last year. Total planting area is expected to be about 380,000 hectares and production about 600,000 metric tons (MT) (2.75 million bales). Low returns due to low domestic prices during the 2014 season were the main reason for the decline. Domestic consumption in MY 2015 is expected to recover moderately following a decline in MY 2014 caused by major economic crises in the leading export markets. Locally available cotton, low domestic consumption and a continuing antidumping investigation on U.S. cotton exports to Turkey affected cotton imports adversely during the first five months of the MY 2014 and total imports remained about 310,000 MT (1.4 Million bales). The U.S. continued to be one of the leading suppliers of cotton to the Turkish market. Imports during the first five months of MY 2014 were 93,500 MT (0.42 million bales).

**Executive Summary:**

Turkish MY 2015 cotton area and production are projected to decline after a short recovery from last year. Total planting area is expected to be about 380,000 hectares and production about 600,000 MT (2.75 million bales). Domestic cotton production and area were 420,000 hectares and 700,000 MT (3.2 million bales) in MY 2014.

Continuing low world cotton prices due to China's policies has caused disappointing cotton returns and farmers planted wheat in place of cotton where the conditions permit. The present administration has been very slow to express its commitment to support cotton production. Despite the repeated promises to increase the production bonus to 0.70 TL per kilogram of seed cotton from 0.55 TL, there has been no action. According to sources, the government is getting ready to announce a 0.65 TL per kilogram bonus for the 2015 crop, but so far there is no official announcement. Prior to planting in MY 2014 the government of Turkey (GOT) had increased the seed cotton production bonus about ten percent to 0.55 TL per kilogram, which had a positive effect on planting.

Overall, yields have been improving in recent years because farmers who continue planting cotton are the most efficient, and have modern equipment and larger fields. Increased utilization of certified seeds, estimated to be about 95 percent of total seeds, have also helped to increase yields. Mechanical harvesting is reported to have increased field and ginning yields as well.

In general, high production costs and competition from other crops are having an adverse effect on cotton production; the only initiative that will increase cotton production in Turkey is the progress of the Southeastern Anatolian Project (GAP) project. The GOT announced an initiative in 2008 to allocate about \$12 billion over five years to speed up the GAP project and finalize the construction of dams, irrigation channels and other infrastructure in the Southeast Anatolian region, bringing irrigation to an additional 780,000 hectares of land by 2016. But the recent conflict along the Syrian border is adversely affecting the execution of the project.

Accordingly, as of now it is unknown if about 30,000 hectares of land that planned to receive irrigation water this summer in the GAP region will actually receive it or not.

The Turkish textile industry continues to be the one of the leading sectors in the Turkish economy providing 17.5 percent of total exports in 2014. A total of 53,000 companies operate in the sector, providing a total of about 0.4 million jobs in the garment production alone.

Total Turkish textile and apparel exports amounted to \$27.6 billion in 2014, up about 8 percent from \$25.8 in 2013. The increase in exports was due to an easing of economic difficulties in the EU market and Turkish exports diversification efforts in new markets. As a result, the EU's share in Turkish exports decreased to 74 percent in 2014, down from 80 percent in 2012. The EU has been the leading market for Turkish textile and garment exporters as buyers prefer to work with low stocks - hence they preferred Turkey's geographical proximity, short response time, and quality.

The United States continued to be the leading cotton supplier to the Turkish market, supplying 48 percent during MY 2013 and 30 percent during the first five months of MY 2104. The antidumping investigation against the U.S. cotton exports and a possible surcharge has caused buyers to delay placing

orders.

Turkey's cotton exports were about 7,300 MT (33,500 bales) during the first five months of MY 2014. Turkey also exported about 15,000 MT (70,000 bales) of hydrophilic cotton for medical use during the same period.

## **Commodities:**

Cotton

## **Production**

As a result of low returns during MY 2014 planting, there is a decline projected in next of about 12 percent to 380,000 hectares, and production to about 600,000 MT. While farmers planted wheat and corn where conditions permitted, about 15,000 hectares of wheat fields in the Hatay region flooded due to excessive rains and are expected to be re-planted with cotton.

According to industry sources, the government is getting ready to announce a 0.60TL per kilogram production bonus for 2015 crop seed cotton. Farmer leaders were pressing the government for a 0.70 TL per kilogram bonus, claiming that it will motivate farmers to plant cotton.

The slow growth in irrigation projects, particularly in the GAP region, is also not helping cotton planting area.

<b>Region</b>	<b>Area (ha.)</b>	<b>Production (MT)</b>
<b>Aegean</b>	70	110
<b>Çukurova</b>	60	95
<b>GAP</b>	250	385
<b>Total</b>	380	600

During MY 2013, local cotton prices moved along with world prices. Local Standard 1 Aegean cotton was \$2.23 per kilogram in September 2013. It declined to \$1.90 per kilogram in late December 2013. Local cotton is presently quoted for \$2.07 per kilogram.

During the winter all the cotton regions have received heavy rains that will contribute to water reserves for irrigation. In general, Turkish farmers are always concerned with the availability of irrigation water, and higher input prices such as seed, fertilizer, fuel and electricity.

Turkey used to be the world leader in organic cotton production, but increasing global production has reduced margins, and domestic production has declined in recent years. MY 2013 organic production is estimated at 10,000 MT compared to 30,000 MT in MY 2006. But field preparations indicate that production will go up to 14,000 MT in MY 2014.

Turkish producers have also taken steps to be part of the Better Cotton Initiative (BCI) and produced about 30,000 MT of BCI cotton in 2014, and expect to produce about 45,000 MT in MY 2015.

#### PSD, Turkey, MT

<b>Turkey Cotton (HECTARES)(MT)</b>						
	2013	Revised	2014	Estimate	2015	Forecast
	<b>Post Old</b>	<b>Post Estimate [New]</b>	<b>Post Old</b>	<b>Post Estimate [New]</b>	<b>Post old</b>	<b>Post Estimate [New]</b>
Market Year Begin		Aug-13		14-Aug		15-Aug
Area Planted	330,000	330,000	430,000	430,000	0	380,000
Area Harvested	330,000	330,000	430,000	430,000	0	380,000
Beginning Stocks	180,014	180,014	180,055	180,055	0	180,055
Production	500,000	500,000	700,000	700,000	0	600,000
Imports	924,373	924,373	750,000	650,000	0	775,000
MY Imp. from U.S.	443,855	443,855	350,000	300,000	0	350,000
<b>TOTAL SUPPLY</b>	<b>1,604,387</b>	<b>1,604,387</b>	<b>1,639,055</b>	<b>1,530,055</b>	<b>0</b>	<b>1,555,055</b>
Exports	44,332	44,332	50,000	50,000	0	50,000
USE Dom. Consumption	1,380,000	1,380,000	1,380,000	1,300,000	0	1,325,000
Loss Dom. Consumption	0	0	0	0	0	0
<b>TOTAL Dom. Consumption</b>	<b>1,380,000</b>	<b>1,380,000</b>	<b>1,380,000</b>	<b>1,300,000</b>	<b>0</b>	<b>1,325,000</b>
Ending Stocks	180,055	180,055	200,055	180,055	0	180,055
<b>TOTAL DISTRIBUTION</b>	<b>1,604,387</b>	<b>1,604,387</b>	<b>1,639,055</b>	<b>1,530,055</b>	<b>0</b>	<b>1,555,055</b>

Yields are continuing to improve because farmers that continue to plant cotton are the most efficient, experienced, well equipped, and have larger fields. The GOT is also increasing its efforts to combine small and divided farms. Therefore, better planting techniques and economies of scale are helping them to achieve higher yields. Increases in the use of certified seeds over the years have also helped to increase yields. The increase in certified seed use is driven by a 10 percent higher production bonus for certified seed users. It is now calculated that 95 percent of the seeds used for cotton planting are certified seeds.

Harran is the heart of the cotton growing area in the GAP region, where 140,000 hectares are under irrigation. An estimated 15,000 hectares of land have been affected by salt accumulation caused by poor irrigation practices. However, drainage channels have been built to prevent harm to cotton fields caused by rising underground water levels due to excessive irrigation. The GOT also provides technical and financial assistant to farmers to build modern drip irrigation systems to prevent ecological problems

and the waste of water resources. There are also studies in the area to move away from open irrigation systems to enclosed system to prevent water loss.

Pests, including budworm and bollworm, are a problem for cotton producers, particularly in the Aegean and Çukurova regions. Therefore, the government ban on aerial pesticide spraying in May 2006 harmed producers in the region. According to growers, there is no other cost-effective way to control infestations in traditional varieties. Turkey does not permit planting of genetically engineered “Bt” insect-protected cotton.

#### **PSD Bales (1000 bales)**

<b>Cotton Turkey</b>	<b>2013/2014</b>		<b>2014/2015</b>		<b>2015/2016</b>	
	<b>Market Year Begin: Aug 2013</b>		<b>Market Year Begin: Aug 2014</b>		<b>Market Year Begin: Aug 2015</b>	
	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
Area Planted	0	0	0			
Area Harvested	330	330	430	430		380
Beginning Stocks	1,315	826	1,357	834		834
Production	2,300	2,300	3,200	3,200		2,750
Imports	4,246	4,242	3,600	2,980		3,560
MY Imports from U.S.	0	2,037	0	1,377		1,600
Total Supply	7,861	7,368	8,157	7,014		7,144
Exports	204	204	230	230		230
Use	6,300	6,330	6,400	5,950		6,080
Loss	0	0	0	0		0
Total Dom. Cons.	6,300	6,330	6,400	5,950		6,080
Ending Stocks	1,357	834	1,527	834		834
Total Distribution	7,861	7,368	8,157	7,014		7,144
Stock to Use %	21	13	23	13		13
Yield	1,517	1,517	1,620	1,620		1,576.

#### **Production Policy**

The GOT has spent more than \$25 billion over the past three decades on a gigantic irrigation and agricultural extension project in Southeast Anatolia known as the GAP project. When finished, some 1.5 million hectares of land will be irrigated and a total of 22 dams will be completed. So far, about 74 percent of the hydro-electric projects are completed, but only 22 percent of the irrigation projects. In 2008, the government promised to allocate \$12 billion over five years for dams, irrigation and infrastructure in the region. During the last three years, the GOT dispersed allocated funds for the

project to vitalize some of the irrigation projects. If realized, a total of 1.04 million hectares of land will be irrigated by the end of 2016, which could eventually increase cotton planting and production in the region.

Most of Turkey's cotton is planted between mid-March and mid-May, and harvested from mid-August through November. The crop is grown in three main areas; the Aegean region, Çukurova, and Southeastern Anatolia. Small amounts of cotton are also produced around Antalya.

The most popular varieties in the Aegean region are "Claudia", "Gloria" and "White Gold"; in Çukurova it is "Delta Pine-SG 125" and "BA 119"; and "Gloria" in the Southeast "Stone Mill ST 468" and "Candia" and "Diyarbakir Gold".

Aegean cotton is considered the best quality and is preferred by textile producers. Aegean cotton is longer staple (1 5/32") than cotton from Çukurova (1 3/32") or the GAP (1 1/8") region, although the quality of the cotton has improved significantly in the GAP region due to improved seed quality.

The total number of harvesters in Turkey has increased rapidly, reaching approximately 1,050. The great majority, about 700, of them are new modern harvesters; about 250 are secondhand, and about 100 are old tractor-pulled harvesters. Presently about 90 percent of Aegean cotton is picked by harvester, and 70 percent of Çukurova and 45 percent of South East Anatolian (GAP) cotton. The demand for harvesters has increased in recent years since the high cost and scarcity of labor have caused cotton picking delays and losses.

All of Turkey's estimated 500 gins are privately owned. The majority of the gins in the Aegean region are roller gins, more suitable for longer staple cotton, while about half of the gins in Çukurova and the Southeast are roller gins and half are saw gins. However, the recent increase in machine harvesting has triggered the construction of new saw gins. The agricultural co-ops Tarış and Çukobirlik have invested in new saw gins to meet the needs of their members. Private groups continue to invest in saw gin projects in the GAP region as well.

The ginning rate average is about 41 percent in the Aegean region, about 39 percent in GAP and 38 percent in Çukurova. Ginners generally purchase seed cotton directly from growers. Lint is graded by a gin expert and certified using a green card system.

## **Consumption**

During MY 2013, domestic cotton consumption was about 1.38 MMT (6.3 million bales). Despite the slowing European economies, Turkish yarn and garment producing companies managed to increase their market share in Europe and increased sales to new markets. During CY 2014, Turkey's exports of garments and textiles had increased about eight and six percent respectively.

However, since the beginning 2015, many factors started to affect Turkish textile industry adversely. The sudden devaluation of the Euro against the U.S. dollar caused Turkish importers' incomes to decline. Turkish mills buy their raw material in U.S. dollars and export to UE countries (the leading

market for Turkish textile exports) in Euros. Present market conditions do not permit sales price increase. The exports to other leading markets, such as Russia and Ukraine, are also in a difficult phase due to the sudden devaluation of local currencies and shrinking purchasing power. Political problems in the Middle East and North Africa have had a negative effect on exports to these areas as well.

Problems in the export markets have also affected the flow of materials and money in the domestic market. One of the leading yarn producers with 200,000 MT of annual cotton use has had to cease operations due to cash flow problems, and other smaller mills are said to be lowering production. In the view of the above, domestic cotton consumption in MY 2014 is expected to decline to 1.3 MMT (5.97 million bales) and a small recovery is expected in MY 2015 with a slow recovery in the European economies. MY 2015 cotton consumption is expected to be about 1.32 MMT (6.08 Million bales).

Turkish mills that benefited from the high demand of recent years have continued to invest in new machinery and increasing their capacity. It is estimated that about 1.0 million new spindles were added in 2013 and an additional 0.5 million was added in 2014.

Turkey ranks among the top five countries in the world in terms of yarn production capacity and number six in ready-to-wear-items production. The new investments will help the industry recover from capacity lost during the 2008 economic crises, lower production costs, and improve economies of scale.

The textile industry continues to be one of the most important sectors for the Turkish economy, accounting for 8 percent of GNP, 16 percent of industrial employment and 17.5 percent of total exports. Investments by the Turkish textile industry since 1985 are estimated at about \$90 billion. With recent investment, Turkey's production capacity is estimated to reach 7 million spindles and 650,000 rotors. Turkish textile exporters have the advantage of faster order response times and higher quality than their competitors.

According to the Exporter's Union data, ready-to-wear items and textiles exports in 2014 were about 8 percent, and 6 percent higher than in 2013, at \$18.7 billion and \$8.8 billion respectively. Overall, the share of textiles and products in total exports were 17.5 percent.

The European Union continued to be the leading market for Turkish ready-to-wear and textile exports in 2014, constituting 74.8 percent and 45.8 percent of exports respectively. Total exports of textiles and garments to the United States were about the same as last year, at \$755 million.

Domestic cotton is mainly sold directly to mills and the remainder is traded on a spot basis at the exchange in Izmir. The Izmir exchange also trades some cotton from other regions and countries. There are smaller spot markets in Adana and in the Southeast.

The GOT, in an effort to make Istanbul a new regional financial center, has moved the administration of the Izmir Futures Market (VOB) to Istanbul and made it part of the Istanbul Stock Exchange. The futures market in Izmir was in operation for a few years and had reached significant trading volumes for products other than cotton.

On the other hand, the Izmir Cotton Exchange formed a new company and built a large bonded storage facility where farmers can leave their cotton for future sales. The new facility will bring new opportunities to Turkish farmers in cotton marketing and ease early season price pressures. Accordingly, the GOT has announced a 7 TL/kg monthly support payment to farmers who utilize bonded warehouses for future sales. Presently, there is only one such storage facility in Izmir, Turkey which has a capacity of 15,000 MT. The Şanlı Urfa Commodity Exchange in the GAP region is building a 20,000 MT capacity bonded warehouse. Turkish farmers had not been using these facilities since it requires their being within the registered economy.

### **Policy**

On October 18, 2014, the GOT initiated an antidumping investigation on U.S. cotton exports to Turkey. The investigation has caused confusion in the market and U.S. cotton orders have slowed down as importers are worried about a possible temporary import duty while the investigation is continuing. The local textile industry met the investigation with anger, pointing out that domestic production can only meet less than half of the sector's needs, and that the U.S. supplies about half of the required imports. The Turkish textile industry is continuing to fight against the possible anti-dumping duty, claiming that such a move will make Turkish textile exports more expensive and may cause Turkish products to lose market share in international markets. The textile industry is one of the crucial industries in Turkey, providing about 17 percent of total exports and about 2.5 million jobs.

### **Trade**

Turkey's cotton imports were 310,000 MT (1.4 million bales) during the first five months of MY 2014 down about 10 percent compared to the same period last marketing year due to abundant local supplies and confusion caused by the antidumping investigations on US cotton exports to Turkey. The U.S. was the leading supplier with 93,000 MT, followed by Greece with 80,000 MT, and Turkmenistan with 54,000 MT.

U.S. exports to Turkey are projected to recover with increased demand during the second half of MY 2014. The U.S. registered 179,000 MT (1.27 million bales) of cotton for sale to Turkey during the first seven months of the marketing year.

Turkey also imported 130,000 MT of cotton yarn and 420 million M<sup>2</sup> of fabric in 2014. While imports of yarn were up about 7 percent, fabric imports were down about 17 percent. Turkey sourced its yarn and fabric imports from Central Asian countries, Pakistan and China.

Turkey's cotton exports were about 7,300 MT (33,500 bales) during the first five months of MY 2014. Vietnam (1,000 MT) and Bahrain (700 MT) were the leading foreign destinations for Turkish cotton. About 1,650 MT of cotton was also exported to the Mersin Free Trade Zone with a possibility of being re-imported later. Turkey also exported about 15,000 MT (70,000 bales) of hydrophilic cotton for medical use during the same period, which added to exports in the PSD.



Additionally, Turkey exported 105,000 MT of cotton yarn and 386 million M<sup>2</sup> of fabric in 2014. Both cotton yarn and fabric exports were the same as a year before. EU member countries continued to be the leading export markets for Turkish cotton yarn and fabric.

Turkey is expected to remain a net cotton importer for years to come due to the large textile industrial capacity, low domestic cotton production and the slow pace of the GAP development project.

<b>Turkey Cotton Import Trade Matrix</b>				
<b>Time Period</b>	<b>Aug/July</b>			<b>Aug/Dec</b>
<b>Imports for:</b>	<b>MY 2013</b>			<b>MY 2014</b>
<b>Units:</b>	<b>Metric Tons</b>			<b>Metric Tons</b>
U.S.	443,855		U.S.	93,495
Others				
Turkmenistan	165,065		Greece	80,041
Greece	144,974		Turkmenistan	54,416
India	52,220		Syria	28,389
Syria	42,993		Brazil	27,662
Tajikistan	18,162		Argentina	3,731
Brazil	17,903		Tajikistan	3,689
Uzbekistan	11,885		Australia	3,296
Burkina Faso	8,731		Mali	3,194
Kyrgyzstan	3,655		India	1,900

FTZ Mersin	2,980		Cameroon	1,505
Total of Others	468,568			207,823
Others not listed	11,950			9,002
<b>Grand Total</b>	<b>924,373</b>			<b>310,320</b>
<b>Time Period</b>	<b>Aug/July</b>			<b>Aug/Dec</b>
<b>Imports for:</b>	<b>MY 2013</b>			<b>MY 2014</b>
<b>Units:</b>	<b>Bales</b>			<b>Bales</b>
U.S.	2,037,294		U.S.	429142
Others				
Turkmenistan	757,648		Greece	367,388
Greece	665,430		Turkmenistan	249,770
India	239,690		Syria	129,846
Syria	197,338		Brazil	126,969
Tajikistan	83,363		Argentina	17,125
Brazil	82,175		Tajikistan	16,936
Uzbekistan	54,552		Australia	15,129
Burkina Faso	40,075		Mali	14,660
Kyrgyzstan	16,776		India	8,721
FTZ Mersin	13,678		Cameroon	6,908
Total of Others	2,150,725			953,452
Others not listed	54,850			41,319
<b>Grand Total</b>	<b>4,242,872</b>			<b>1,424,369</b>